

DOCKET NO. 01-035-01
CARL L. MOWER
EXHIBIT NO. DPU 4
May 31, 2001

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)
PacifiCorp for an Increase in its) DOCKET NO. 01-035-01
Rates and Charges)

DIRECT TESTIMONY OF

CARL L. MOWER

FOR THE
DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

DIRECT TESTIMONY OF CARL L. MOWER
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DIRECT TESTIMONY OF CARL L. MOWER
LIST OF EXHIBITS

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DPU 4.1	Computer Software Write-Down Over A Five-Year Period	8
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SUMMARY OF DIRECT TESTIMONY OF
CARL L. MOWER
DOCKET NO. 01-035-01

My testimony presents the Division of Public Utilities' recommendation that the write-down of computer software be amortized over a five-year period instead of the three-year period as proposed by the Company. However, I also provide a correction to the Company's calculation if the Commission determines that it will adopt a three-year amortization period.

**DIRECT TESTIMONY OF CARL L. MOWER
DOCKET NO. 01-035-01
MAY 31, 2001**

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Introduction

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Carl L. Mower, and my business address is the Hebert
M. Wells State Office Building, 160 East 300 South, Salt Lake City, Utah.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Utah Division of Public Utilities (Division) as
a Technical Consultant.

**Q. HOW LONG HAVE YOU BEEN EMPLOYED BY THE DIVISION OF
PUBLIC UTILITIES OR ITS PREDECESSORS?**

A. Since March 1, 1973.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I graduated from Brigham Young University with a Bachelor of
Science Degree in Accounting and a composite minor in Business
Management and Economics. I have also participated in a number of

1 conferences and seminars related to public utility regulation.

2 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ASSOCIATIONS?**

3 A. I am licensed as a Certified Public Accountant (CPA) with the State
4 of Utah. I am a member of the American Institute of Certified Public
5 Accountants and the National Association of Regulatory Utility
6 Commissioners Staff Subcommittee on Accounting and Finance.

7 **Q. HAVE YOU TESTIFIED IN PREVIOUS CASES BEFORE THE PUBLIC
8 SERVICE COMMISSION OF UTAH?**

9 A. Yes.

10 **Q. WHAT IS THE NATURE OF YOUR TESTIMONY IN THIS CASE?**

11 A. I will present the Division's position on the issue of the write-down
12 of the computer software.

13 **Q. HAVE THE EXHIBITS THAT YOU WILL PRESENT BEEN PREPARED
14 BY YOU OR UNDER YOUR DIRECTION?**

15 A. Yes.

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Recommendations

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**Q. PLEASE SUMMARIZE THE DIVISION'S RECOMMENDATION
CONCERNING THE ISSUES IN YOUR TESTIMONY IN THIS CASE.**

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A. The Division recommends that the write-down of computer software costs be amortized over a five-year period instead of the Company's request for a three-year amortization period.

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Computer Software Write-Down

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Q. PLEASE BRIEFLY DESCRIBE THE HISTORY OF THIS ADJUSTMENT.

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A. One of several write-downs that PacifiCorp made in its books at year end 1997 was to expense the costs of obsolete computer software. The Company proposed in Docket No. 97-035-01, to amortize the computer software write-down over a three-year period for rate making purposes by removing two-thirds of the write-down so that only one-third would be included in the test year of 1997.

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The Division opposed including any of the software write-down in Docket No. 97-035-01 on the basis that it was a post-test-year adjustment and it was not appropriate to include it in the test year. The software was used and useful during the 1997 test year, and was not replaced in 1997. The Commission's order issued March 4, 1999, removed the write-down from the test year.

1 The Company again requested in Docket No. 99-035-10, that the
2 costs of the write-down of the computer software be amortized over a
3 three-year period beginning with 1998. The Division's position was that
4 the costs of the write-down of the computer software should be amortized
5 over a five-year period beginning in 1998. The Commission's order
6 issued May 24, 2000, again removed the computer software write-down
7 from the test year.

8 **Q. WHAT TREATMENT IS THE COMPANY REQUESTING IN THIS CASE**
9 **FOR THE WRITE-DOWN OF THE COMPUTER SOFTWARE?**

10 A. The Company is again requesting that the costs of the write-down
11 of the computer software be amortized over a three-year period beginning
12 in 1999. The Company is also requesting rate base treatment for the
13 unamortized portion of the costs. The exhibits of the Company show the
14 effect of the adjustment as an increase to the Utah allocated amortization
15 expense of \$858,000 and an increase to rate base of \$1.5 million, before
16 consideration of corresponding income tax effects. This causes an
17 increase in revenue requirement of \$956,000. However, the Company's
18 exhibits have an error, that I will explain later.

19 **Q. WHAT ARE THE REASONS THE COMPANY CHOSE A THREE-YEAR**

1 **PERIOD TO AMORTIZE THE COMPUTER SOFTWARE WRITE-DOWN?**

2 A. The Company's testimony does not give any reasons for choosing
3 a three-year amortization period. The Company's response to Division
4 Data Request No. 6.16 states

5 Most software is amortized over five years from
6 the time it is placed in service. . . . Since recovery of
7 these costs has already been delayed well beyond
8 the normal amortization period for this type of
9 software, it was felt the shorter three-year
10 amortization period would be appropriate.

11 **Q. WAS THE COMPUTER SOFTWARE ACTUALLY REPLACED IN 1999?**

12 A. The Company's testimony states that its new software program
13 SAP (Systems Applications and Products) was used throughout 1999 and
14 the existing systems became obsolete.

15 **Q. WHAT IS THE DIVISION'S POSITION CONCERNING THE WRITE-**
16 **DOWN OF THE COMPUTER SOFTWARE?**

17 A. The Division's position is that the write-down of the computer
18 software should be amortized over a five-year period beginning in 1999.

19 **Q. WHAT ARE SOME OF THE REASONS THE DIVISION IS**
20 **RECOMMENDING THAT THE WRITE-DOWN OF THE COMPUTER**
21 **SOFTWARE BE AMORTIZED OVER FIVE YEARS INSTEAD OF**

1 **THREE?**

2 A. The reasons for recommending a five-year amortization are still the
3 same as expressed in Docket No. 99-035-10. Those reasons are: (1) It
4 strikes a reasonable balance between rate recovery of the costs and
5 mitigation of rate impacts, (2) the Commission will have established a
6 procedure for the Company to recover the costs, (3) the Company would
7 no longer face the possibility that the costs would be completely denied,
8 (4) the unrecovered costs will remain in rate base on which the Company
9 will earn a rate of return, and (5) the risk effect on the cost of capital of
10 recovering the costs over five years instead of three is considerably less
11 than not recovering the costs at all.

12 In addition, the Commission has ordered a five-year period for
13 amortization of (1) the write-down of the Company's mainframe computer,
14 (2) re-engineering costs for both PacifiCorp and US WEST
15 Communications, (3) one-time costs incurred in the Company's work force
16 reduction plans, and (4) the reclamation costs associated with the
17 Company's closure of the Dave Johnston coal mine. The Company is
18 also requesting that the unrecovered assets at the Dave Johnston coal
19 mine be recovered over a five-year period.

20 **Q. WHAT IS THE IMPACT IN THIS CASE OF AMORTIZING THE WRITE-**

1 **DOWN OF THE COMPUTER SOFTWARE OVER A FIVE-YEAR**
2 **PERIOD?**

3 A. The computer software has been removed from the books of the
4 Company. Therefore, an adjustment has to be made to include it in each
5 rate case. The adjustment made in the last rate case was to include the
6 software in the Company's rate base as if no write-down had been made.
7 The adjustment the Division proposes in this case is to include 1/5 of the
8 write-down as expense and the other 4/5 in rate base. The effect of
9 amortizing the computer software write-down over a five-year period is an
10 increase to expense of \$515,000 and an increase in rate base of \$2.67
11 million before consideration of corresponding income tax effects. The
12 effect on revenue requirement is an increase of \$900,000. This is less
13 than the \$956,000 increase shown on the Company's exhibits before
14 consideration of the error the Company made.

15 **Q. PLEASE EXPLAIN THE ERROR MADE BY THE COMPANY.**

16 A. The Company included an extra amount for deferred taxes in its
17 calculation of the adjustment to rate base. When the error is corrected,
18 the revenue requirement of the Company's adjustment is an increase of
19 \$1.16 million. Therefore, the effect of changing to a five-year amortization
20 instead of a three-year amortization after correcting the Company's error

1 is a reduction in the Company's case of \$260,000.

2 **Q. HAVE YOU PREPARED AN EXHIBIT WHICH SETS FORTH YOUR**
3 **CALCULATIONS OF THE DIVISION'S PROPOSED ADJUSTMENT?**

4 A. Yes. Exhibit No. DPU 4.1, entitled "Computer Software Write-
5 Down Over a Five-Year Period," shows the calculations.

6 **Q. HAVE YOU PREPARED AN EXHIBIT WHICH CORRECTS THE**
7 **COMPANY'S CALCULATIONS OF A THREE-YEAR AMORTIZATION**
8 **PERIOD?**

9 A. Yes. Exhibit No. DPU 4.2, entitled "Computer Software Write-
10 Down Over a Three-Year Period (Correction of Company Adjustment),"
11 shows the calculations. This exhibit is provided in the event that the
12 Commission chooses the Company's three-year amortization period
13 instead of the five-year amortization period recommended by the Division.

14 **Q. DOES THAT COMPLETE YOUR DIRECT TESTIMONY?**

15 A. Yes.